

TO: Mike Szymanczyk

DATE: July 29, 1992

FROM: James Taylor

SUBJECT: OPTIMIZING THE STRUCTURE OF THE PM SALES FORCE.

Given the changes in the dynamics of our business -- especially as they relate to brands like Marlboro -- I thought it might be appropriate to take the time to formalize a number of thoughts that have been in my mind recently and ask you to take a look at them.

To that end, this paper discusses issues relating to the current Philip Morris USA Sales Force structure and provides a recommendation to test, either on a section or regional basis, a concept that separates sales force responsibilities between full margin and discount product categories.

### BACKGROUND

The intensity of the competitive environment has grown ferociously over the past five years. The fight for share and volume within our industry has seen a "war" emerge in four specific areas:

- Discount brands -- where there are three subsegments ranging from highly couponed products to absolute "lowest price in store" offerings.
- Incentive promotions -- predominately on full margin brands such as Marlboro, Winston and Camel, that are designed to build image and purchase interest among key young adult smoker groups.
- Full margin couponing -- on many significant full margin franchises that are in slow, long-term decline.
- A proliferation of New Products -- diluting the relevance of existing franchises, making visibility harder to achieve and adding clutter to an already squeezed retail environment.

Key to maximizing our business in the long term -- especially for Marlboro -- is our ability to focus and react to rapid shifts in the marketplace. I would hypothesize, however, that our current sales force structure is not fully equipped to meet this criteria.

### CURRENT STRUCTURAL LIMITATIONS

Given the changes in our business and the likelihood of increased business complexity at retail, the following points discuss why our 'full brand service' sales structure while working for brands like Marlboro through the 80's may not be right for the 90's.

- The average sales representative makes approximately eight calls per day that are credited against an objective of achieving full targeted retail coverage over the course of a six week cycle. The low call rate -- on an average daily basis -- limits our ability to react quickly and effectively in an environment that has -- and will continue to be -- extremely competitive.

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- The focus of the Sales Force is constrained by a structure that demands that sales personnel attempt to work against all levels of our business at one time. Studies undertaken to better understand sales force efficiency indicate that currently, sales representatives spend close to 70% of their time working against the 21% of company volume generated by discount brands.
- There is simply too much to do for sales representatives to be able to achieve a consistent, quality in-call mission. As long-term consumer promotion strategies are going to gain both in terms of importance (to volume) and complexity, we need to equip ourselves to focus even more on timely, well executed, retail activity behind premium brands such as Marlboro.
- PM Express is a major strategic tool in the 'war' of retail promotions. Key to the success of this system is rapid and effective placement of promotions at retail following delivery. If we estimate that (say) 50% of retailers will place promotions in the outlet exactly as it should be placed, we still have to address the 50% that we have to set-up. The advantages of PM Express will not be truly maximized if sales representatives don't have the flexibility to be able to make rapid retailer contact immediately after promotion deliveries are made.
- Existing coupon strategies often call for parity coupon discounts versus key competitive brands. Due to breadth of workload and resulting 8 call per day retail coverage patterns, it is almost impossible to maintain pricing parity in key discount outlets on an ongoing basis. We may, therefore, be disadvantaged in the discount sector against competitors like Reynolds, who have -- through separate 'discount brand' sales and merchandising operations -- the flexibility to achieve key outlet pricing advantages against PMUSA.

### RECOMMENDATION

I would recommend that we test, either on section or regional basis, a structure that provides two separate PM USA sales functions. One for premium brands, the other for all discount products. This recommendation does not suggest that incremental Sales Force costs will be incurred.

The advantages of such an arrangement in today's environment are as follows:

- Get more competitive in an industry that is at "war". Separating the sales force mission between premium and discount brands is not entirely different from RJR's current sales force structure. RJR's sales force is focused behind premium brands while coupons are handled -- on a day-to-day basis -- by merchandisers and part-timers. This focus has been meaningful for brands such as Camel and -- following its recent launch -- Winston Select, which achieved significant retail presence. In separating the Sales Force, PMUSA could (theoretically) realize a competitive advantage by having professional, experienced representatives managing both the Premium and Discount sides of the business.

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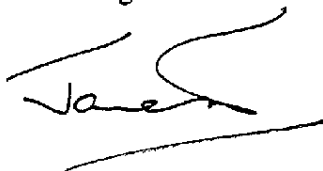
- **Reduce the confusion of the current in call mission.** Let full margin brands receive the level of service that they should do, given their importance to PM USA's revenues and allow the sales team to focus on specific components -- either full margin or discount -- of the business.
- **Expand sales force flexibility and significantly increase daily call rates.** If we accept that 70% of sales force time is currently focused against discount brands, without these responsibilities, a premium brand sales representative could reasonably achieve 18-20 quality calls per day. Importantly, a call rate of 18+ per day is theoretically achievable -- as evidenced in major PM International markets -- when only four or five key brand families are serviced on an ongoing basis.

Discount brands would also benefit. An increase in daily calling rates through the elimination of premium brand activity could, in theory, increase calling patterns to 12+ per day, allowing the Sales Force to better focus against the 25% of high volume discount calls that do 80% of the total discount business

This would allow Marlboro and other premium brands to get the attention they need, given the growing complexity of retail promotion programming and allow for more substantive discount brand calls. (See Attachment)

- **Maximize the true benefits of PM Express.** We cannot presuppose that the majority retailers will do our work for us -- even if they do know exactly how a promotion should be set-up. It will remain critical that retail calls are made to outlets where promotions are dropped off as soon as possible after promotion delivery. Having the benefit of up to 20 calls per day will greatly reduce inefficiency in promotion placement.
- **Improve retailer relations.** Providing focused, more frequent service to retail will increase perceptions that PMUSA is the industry specialist at all levels of the business.

If you consider it appropriate, I would appreciate the opportunity to meet with you to discuss these thoughts further. Please get back to me at your earliest convenience.



cc: N. Lund

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